

# Can Baby Boomers

*Mixed messages abound but the bottom line is those who have planned well will be better off than others.*

**B**aby Boomers, including me, are getting close to those “golden years.” But will they really be golden? Will we have enough resources to enjoy the time we’ve worked so hard to get to and is so close? Boomers are by far the largest cohort in the population and have had a greater economic impact on our society than any other so far. Are we ready to go? Not so fast! Some of us, and that maybe more than just a few of us, are probably not going to completely drop out of the labor force.

## *First Things First*

Baby Boomers are those folks born during the 18-year span between 1946 and 1964. Some of us older Boomers have turned 60 and are rapidly approaching the magic retirement day. Many are doing this kicking and screaming! Many are suddenly getting the wake-up call that retirement is only single-digit years away and are panicking because they have improperly prepared financially for not working. The first Baby Boomer can collect actuarially-reduced Social Security benefits in 2008 (age 62) and full benefits (at age 67) in 2013. The question is, are Boomers financially ready to retire? The answer is, maybe.

Much study has been conducted addressing this important question. One group says that Boomers have been so consumption-oriented (not saving) that they have been myopic in their planning and will not be able to stop working and completely retire. They will have to supplement their often meager Social Security income, little or no savings, and no pension,

with a part-time job. Work will be out of economic necessity. Obviously, some will opt to work, not only for the money, but for something to do. For the unprepared Boomers the largest asset is their houses. Although often of substantial value, a house is not a highly liquid asset for use in paying living expenses.

## *On the Other Hand...*

More than a few researchers paint a brighter picture of the financial well being of Boomers. One study\* by the American Association of Retired Persons (AARP) analyzed data from the Federal Reserve Board’s Survey of Consumer Finances (SCF). The SCF provided information on Baby Boomers’ median net worth, excluding Social Security benefits and defined benefit pension benefits.

The AARP’s study segmented the Baby Boomers into five smaller age cohorts of about four years. The results of this look at median net worth are shown in the graph. Clearly, older Boomers have substantially more net worth than younger Boomers. This is not surprising since older Boomers have had more time to accumulate wealth.

When you look at just the oldest Boomers (born between 1946 and 1949) the median net worth in 2004 (the last year in the study) is \$179,000 including the value of home equity (about \$110,000 excluding home equity). If you assume that those oldest workers (ages 55 to 58 in 2004) accumulate another six years of wealth at the same rate of growth in net worth that they did from 1989 to 2004, the

total median net worth would be about \$350,000 including home equity and \$175,000 excluding home equity.

Is that enough? If you add Social Security benefits and assume an adequate pension, perhaps. It’s too difficult to tell with any certainty. Suffice it to say some Boomers will be much better off than others. Those who have planned well will be better off. For the majority of us our retirement resources will be in many forms: Social Security, savings accounts, tax-deferred savings (401(k)s), defined benefit pension plans, and other related income.

Regardless of how well prepared we are there are some givens we must acknowledge.

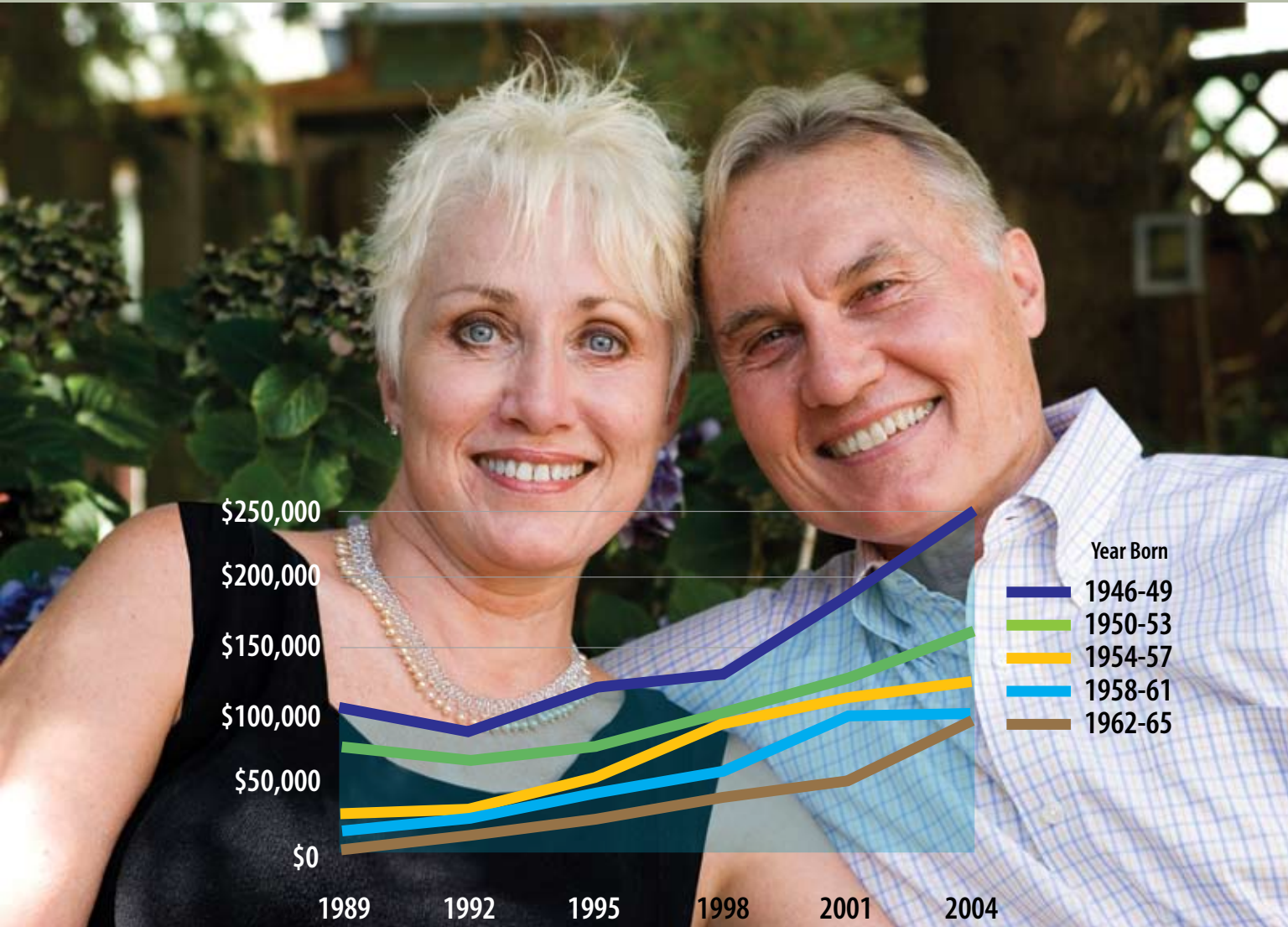
First, Boomers face greater investment risk in their retirement plans, as self-directed 401(k) plans have replaced defined benefit pensions in retirement asset portfolios. Second, Boomers’ life expectancy is greater than that of their predecessors, so they will need more resources to sustain a longer retirement. Third, healthcare costs are higher than ever and rising, and over time place a larger and larger burden on successive generations of retirees. (Delorme, Munnell, and Webb, 2006)

Remember the old adage: Those that fail to plan, plan to fail. So plan! 📌

For more information go to <http://www.aarp.org/research/reference/boomers/>

\*Boomer Wealth: Beware of the Median, Research Report, John Gist, AARP Public Policy Institute, September 2006.

# Afford to Retire?



Source: Federal Reserve Board Survey of Consumer Finances, 1989-2004

**Median Net Worth of 4-Year Boomer Cohorts**  
in Constant (2004) Dollars  
1989-2004